

Loss Aversion Bias in Working Capital Management and Performance of Small and Medium Enterprises (SMEs): The perspectives of Ghanaian SME Managers

Jeff Lamptey, Asri Bin Marsidi

To Link this Article: <http://dx.doi.org/10.6007/IJARBSS/v10-i5/7180>

DOI:10.6007/IJARBSS/v10-i5/7180

Received: 22 March 2020, *Revised:* 22 April 2020, *Accepted:* 25 April 2020

Published Online: 07 May 2020

In-Text Citation: (Lamptey & Marsidi, 2020)

To Cite this Article: Lamptey, J., & Marsidi, A. Bin. (2020). Loss Aversion Bias in Working Capital Management and Performance of Small and Medium Enterprises (SMEs): The perspectives of Ghanaian SME Managers. *International Journal of Academic Research in Business and Social Sciences*, 10(5), 127–141.

Copyright: © 2020 The Author(s)

Published by Human Resource Management Academic Research Society (www.hrmars.com)

This article is published under the Creative Commons Attribution (CC BY 4.0) license. Anyone may reproduce, distribute, translate and create derivative works of this article (for both commercial and non-commercial purposes), subject to full attribution to the original publication and authors. The full terms of this license may be seen at: <http://creativecommons.org/licenses/by/4.0/legalcode>

Vol. 10, No. 5, 2020, Pg. 127 - 141

<http://hrmars.com/index.php/pages/detail/IJARBSS>

JOURNAL HOMEPAGE

Full Terms & Conditions of access and use can be found at
<http://hrmars.com/index.php/pages/detail/publication-ethics>

Loss Aversion Bias in Working Capital Management and Performance of Small and Medium Enterprises (SMEs): The perspectives of Ghanaian SME Managers

Jeff Lamptey, Asri Bin Marsidi

Faculty of Economics and Business, Universiti of Malaysia Sarawak

Email: jefflampt@gmail.com, maasri@unimas.my

Abstract

We examine Loss aversion bias in working capital management and performance of Small and medium-sized enterprises (SMEs) in Accra, Ghana. Our study adopts a qualitative case study approach and in-depth interviews to obtain data from thirty-five (35) Owner-managers. This research shows that SME managers(owners) are loss aversion as they evaluate financial outcomes by thinking about loss and profits and use profits in most financial decision thereby prone to fear of loss. Moreover, SMEs managers (owners) subjected to enormous fear tend to be highly loss averse over loss (uncertain gain) and risk averse. While managers(owners) with less fear are low loss averse over profits and risking seeking. By implication, low loss averse SME managers(owners) tend to perform better than highly loss averse managers who underinvest in working capital in inventory, resulting in decreased profit margins. Thus, we conclude SMEs manager's loss aversion matters in working capital management and performance.

Keywords: Loss Aversion, Ghanaian SMEs Working Capital Management, Performance.

Introduction

Small and medium enterprises (SMEs) are expected to manage working capital to enhance performance. Managers are required to follow the standard working capital practices for optimum decision. However, they hardly apply theories but rather use subjective methods of working capital decision (Filbeck and Lee, 2000; Bandara and Rathnasiri, 2016). This subjective decision can expose managers to several biases, including loss aversion (Tversky and Kahneman, 1974) which is one of less studied managerial biases compared to overconfident bias. Following the theoretical evidence of Tversky and Kahneman (1974), much of the literature in loss aversion comes from investors (Rephael et al. 2012; Bouteska and Regaieg, 2018 and fund managers (Bodnarruk, 2016) show that loss aversion bias highly influence financial decisions. However, there is still limited knowledge about loss aversion behaviors of managers(owners) of SMEs, given their managerial role and as key financier.